

Message Text

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ACTION NEA-16

INFO OCT-01 EA-11 ISO-00 AGR-20 CIAE-00 COME-00 EB-11

INR-11 LAB-06 NSAE-00 RSC-01 SP-03 STR-08 TRSE-00

SWF-02 CIEP-03 FRB-03 OMB-01 DRC-01 SS-20 NSC-07 /125 W

----- 077431

R 020918Z AUG 74

FM AMCONSUL KARACHI

TO SECSTATE WASHDC 8276

INFO AMEMBASSY ISLAMABAD

AMCONSUL LAHORE

AMEMBASSY HONG KONG

AMEMBASSY TOKYO

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: EIND, ECON, EAGR, ETRD, PK

SUBJECT: PAKISTAN'S COTTON OUTLOOK

REF: A. HONG KONG 8259 B. KARACHI 1563

SUMMARY: RELIABLE LOCAL CONTACT ANTICIPATES LARGE RAW COTTON SURPLUS FROM CURRENT CROP YEAR WHICH, ADDED TO UNUSUALLY HEAVY CARRY-OVER FROM LAST YEAR, WILL TOTAL ALMOST 1.5 MILLION BALES AVAILABLE FOR EXPORT. SOURCE EXPECTS PAKISTAN WILL HAVE GREAT DIFFICULTY IN SELLING THIS EXPORTABLE SURPLUS AT ANYWHERE NEAR PRICES WHICH OBTAINED LAST YEAR, OWING TO SLACK WORLD PRICES AND HOLD-OFF IN PURCHASES BY MAJOR FAR EASTERN BUYERS OF PAK COTTON. END SUMMARY.

1. ON RECEIPT OF REF. A, CONGENOFF CONTACTED RELIABLE LOCALLY RESIDENT FOREIGN NATIONAL WHO HAS INTIMATE KNOWLEDGE OF PAKISTAN'S COTTON TRADE. SOURCE PROVIDED HIS PERSONAL ASSESSMENT OF OUTLOOK FOR PAKISTAN'S SALES OF RAW COTTON. HE ESTIMATES THAT DOMESTIC TEXTILE MILLS HAVE PURCHASED APPROXIMATELY 2.55 MILLION BALES OF

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COTTON FROM THE LAST CROP AND PREDICTS APPROXIMATELY 100,000 MORE

BALES WILL BE PURCHASED BY PAK MILLS UPTO AUGUST 1, 1974. ACCORDING HIS ESTIMATE THIS LEAVES APPROXIMATELY 850,000 BALES RAW COTTON AS PAKISTAN'S EXPORTABLE SURPLUS FOR THIS YEAR. OF THIS AMOUNT HE ESTIMATES 265,000 BALES HAVE ALREADY BEEN SOLD ABROAD AS OF JULY 15, AND THAT THE COTTON EXPORT CORPORATION (CEC) MAY SUCCEED IN SELLING AN ADDITIONAL 100,000 BALES IF THEY ARE LUCKY. PAKISTAN WILL THEN STILL BE SADDLED WITH A COTTON CARRY-OVER OF 485,000 BALES WHEN THE NEW CROP BEGINS TO BE HARVESTED LATE THIS SUMMER. ACCORDING OUR SOURCE THIS IS AN EXTREMELY HIGH FIGURE SINCE THE CARRY-OVER IN THE PAST FEW YEARS HAS AVERAGED ONLY ABOUT 100,000 BALES EACH YEAR.

2. OUR INFORMANT BELIEVES THAT DESPITE OPTIMISTIC PREDICTIONS BY THE PUNJAB AND SIND GOVERNMENTS OF COTTON HARVESTS TALLING 3.5 MILLION AND 1.5 MILLION BALES RESPECTIVELY, HE ANTICIPATES TOTAL PAKISTANI COTTON HARVEST THIS YEAR WILL TOTAL ONLY 4 MILLION BALES. OF THIS AMOUNT, HE ESTIMATES 3 MILLION BALES WILL BE REQUIRED BY DOMESTIC TEXTILE MILLS, LEAVING APPROXIMATELY 1 MILLION BALES AS EXPORTABLE SURPLUS. THE COMBINED CARRY-OVER AND NEW SURPLUS AVAILABLE FOR EXPORT WILL TOTAL 1.485 MILLION BALES OF COTTON, WHICH WILL BE VERY DIFFICULT TO SELL IN SAGGING WORLD MARKET.

3. IN LIGHT OF THESE FIGURES OUR SOURCE STATES PAKISTAN IS INDEED IN DIFFICULT POSITION WITH NO SOLUTION TO THE DILEMMA IN VIEW. THE PROBLEM IS COMPOUNDED BY THE GROWING STOCKPILE OF CLOTH AND YARN (SEE REF. B), WHICH IS ALSO REACHING CRISIS PROPORTIONS.

4. SOURCE BELIEVES VERY LARGE SURPLUS OF EXPORTABLE RAW COTTON IS DUE TO TWO FACTORS: (A) THE DOMESTIC MILLS SERIOUSLY OVERSTATED AMOUNT OF COTTON THEY WOULD REQUIRE DURING REST OF YEAR AT TIME OF 1973 SUMMER FLOODS AND INSISTED THAT GOP CUT BACK ON RAW COTTON EXPORTS. GOP DID LIMIT EXPORTS BUT MILLS DID NOT IN FACT PURCHASE QUANTITY THEY ORIGINALLY CLAIMED THEY WOULD NEED, THUS LEAVING GOP WITH SEVERAL HUNDRED THOUSAND BALES UNEXPORTED; (B) BUREAUCRATIC BUNGLING HAS COMPOUNDED THE PROBLEM OF SLOW SALES IN LATE NOV. 1973 AS FOLLOWS: NEWLY FORMED COTTON EXPORT CORP. HAD DECIDED TO PROCEED WITH EXPORT OF RAW COTTON EVEN IF IT SUFFERED AN OPERATING LOSS. DECISION OVERRULED BY THE GOP COMMERCE SECY, WHO IMPEDED COTTON EXPORTS BY SPECIFYING (I) CEC LIMITED OFFICIAL USE

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COULD NOT SUFFER FINANCIAL LOSS IN ITS OPERATIONS, (II) THERE WOULD BE NO REDUCTION ON EXPORT DUTY FOR RAW COTTON (DUTY RANGED UPTO 160 PERCENT AD VALOREM), AND (III) THERE WOULD BE NO EXPORT SALES AT ANY PRICE LESS THAN THE KARACHI PROCUREMENT PRICE PLUS THE EXPORT DUTY. AS RESULT NO COTTON WAS EXPORTED FROM PAKISTAN IN DEC, JAN. OR FEB. WHEN, ACCORDING OUR SOURCE, SEVERAL HUNDRED THOUSAND BALES OF COTTON COULD HAVE BEEN SOLD AT WORLD MARKET PRICE AVERAGING 75 CENTS PER LB. GOP BELATEDLY REALIZED

BAD EFFECTS OF COMMERCE SECY'S DECISION BY LATE FEB. AND CHANGED POLICY IN ORDER ALLOW RAW COTTON SALES AT PREVAILING WORLD MARKET PRICE. HOWEVER, IT WAS TOO LATE TO SELL ALL OF THE COTTON; IN FACT WHAT THEY DID SUCCEED IN SELLING WAS AT PRICES LOWER THAN WHAT COULD HAVE BEEN OBTAINED IN NOV. DEC. AND JANUARY. CEC IS STILL TRYING SELL SEVERAL HUNDRED THOUSAND BALES AT NOW PREVAILING PRICE OF APPROXIMATELY 45 CENTS PER LB.

5. SOURCE COMMENTED THERE IS SOME TRUTH IN THE STATEMENTS MADE BY MIN. FINANCE MUBASHIR HASSAN, THAT INDUSTRIALIZED COUNTRIES ARE TAKING ADVANTAGE OF PAKISTAN BY FORCING DOWN THE PRICES OF COTTON AND COTTON TEXTILES. HE COMMENTED THAT JAPANESE HONG KONG AND SINGAPORE BUYERS ARE APPARENTLY TAKING "REVENGE" ON PAKISTAN FOR WIDE-SPREAD PAK RENEGING ON EXPORT CONTRACTS DURING RISING MARKET IN 1972 AND 1973. FAR EASTERN BUYERS NOW WITHHOLDING PURCHASE OF PAKISTANI COTTON AND COTTON YARN AND THEREBY DRIVING DOWN PRICES ON WORLD MARKET. SOURCE SAID HE EXPECTED THIS WOULD CONTINUE SINCE ALL MAJOR FAR EASTERN BUYERS REALIZE PAKISTAN'S DIRE SITUATION AND EXPECT COTTON AND YARN PRICES TO FALL EVEN FURTHER. THEREFORE THESE BUYERS WILL PROBABLY DELAY THEIR PURCHASES AS LONG AS POSSIBLE IN ORDER TO OBTAIN THE LOWEST PRICES.

6. COMMENT: IN VIEW OF THE FOREGOING INFORMATION APPEARS PAKISTAN MAY HAVE SERIOUS PROBLEMS IN REACHING ITS FY 75 EXPORT TARGET OF \$1.3 BILLION. FIN. MIN. MUBASHIR'S DESIRE TO RESIST THE "IMPERIALIST CONSPIRACY" WILL UNDOUBTEDLY HAVE TO BE ACCOMMODATED TO REALITIES OF SUPPLY AND DEMAND.
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